

CLWYD PENSION FUND COMMITTEE	
<b>Date of Meeting</b>	Wednesday, 29 November 2023
<b>Report Subject</b>	Investment Strategy Statement
<b>Report Author</b>	Head of Clwyd Pension Fund

### **EXECUTIVE SUMMARY**

The LGPS Investment Regulations include a requirement to produce, and maintain an Investment Strategy Statement (ISS). The Fund's first ISS was produced in 2017, and the most recent was approved in February 2022. The Regulation states that statements must be kept under review and revised from time to time and at least every three years.

At the meeting of the Committee in February 2023, the review of the investment strategy was presented along with the first draft of the ISS. At the time, members agreed to a new strategic asset allocation, but proposed alternative changes to the ISS in relation to some of the Fund's Responsible Investment (RI) policies.

At the meeting of the Committee in August 2023, the revised RI Policy within the ISS (which included a new Exclusions Policy), was agreed and passed to employers for consultation.

The Fund has not received any challenge to the proposed RI Policy changes as a result of the consultation. There have been some minor grammatical amendments, as well as an amendment following review of a query from Councillor Swash, providing clarification on the wording used to articulate the company engagement targets for credible net zero plans in the listed equity portfolio (please refer to section 1.03). The final version of the ISS is included within the pack for approval by the Committee.

The Committee should note that there is a proposal to undertake an investment strategy review in early 2024. If any further changes are made following this, these will need to be reflected in the ISS.

RECOMMENDATIONS	
1.	The Committee note and approve the final ISS.
2.	The Committee note the rationale for reviewing the investment strategy and agree to updating the 2023/24 business plan to include a review of the investment strategy early in 2024.

## **REPORT DETAILS**

<b>1.00</b>	<b>Investment Strategy Statement</b>
1.01	<p><b>ISS Regulations</b></p> <p>The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provide the statutory framework under which the Administering Authority is required to prepare and publish an Investment Strategy Statement (ISS). These Investment Regulations and accompanying guidance required that Administering Authorities prepared and published their first ISS by 1 April 2017. After this, the requirement is that the ISS is regularly reviewed and updated from time to time; at least every three years. The LGPS Investment Regulations require that the Fund “consults with such persons as it considers appropriate as to the proposed contents of its investment strategy”.</p>
1.02	<p><b>ISS Background and Timeline</b></p> <p>The Committee approved the first Clwyd Pension Fund ISS in 2017, and the last revision was February 2022. Since then, a full review of the Investment Strategy was undertaken in tandem with the 2022 actuarial valuation. The Committee met in February 2023 to discuss the investment strategy review and the first draft of the revised ISS. The Committee agreed to accept the revised strategic asset allocation presented, however, further changes were proposed in respect of sections within the Fund’s RI policy, specifically in relation to reducing exposure to fossil fuels.</p> <p>It was agreed at the time that additional training would be arranged for the Committee to discuss the topic. The Committee have since received three training sessions on the topic: 26 April 2023, 3 May 2023 and 2 August 2023.</p> <p>The Committee were presented with the revised RI policy section within the ISS at the August Committee, which included the new Exclusions Policy. This was subsequently agreed and sent to employers for consultation.</p>
1.03	<p><b>Councillor Swash Query</b></p> <p>At the last Committee meeting a question was raised from Councillor Swash in relation to the engagement targets for the listed equity holdings. Specifically, a concern was raised in relation to the wording specifying the percentage of companies, rather than percentages of investments by value within the net zero commitments listed equity portfolio.</p> <p>The initial intention of the original wording was to mean percentage of investments by value invested and emissions exposure. As a result, to clarify this point there has been an amendment to the ISS wording which was proposed at the last meeting, as follows: e.g. “by 2025, at least 70% of companies, as measured by value invested and emissions exposure, in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective.”</p>

1.04	<p><b>Consultation Response and Proposed ISS</b></p> <p>The Fund has not received any challenge or request for changes as a result of the consultation and therefore a further version of the ISS has been included within the pack for approval by the Committee. This version includes the following changes:</p> <ul style="list-style-type: none"> <li>• The proposed amendments highlighted in the February 2023 Committee meeting pack (<a href="#">February ISS proposal</a>) excluding the RI Policy amendments in that version</li> <li>• The amendments to the RI Policy as agreed at August 2023 Committee (<a href="#">August RI Policy proposal</a>), subject to the small change discussed as outlined in paragraph 1.03 above</li> <li>• A small number of points of clarity or other changes to ensure the ISS is up to date, as highlighted in the draft ISS in the appendix to this report.</li> </ul> <p>Committee members are asked to approve the ISS included in the appendix, which will then be uploaded on the Fund’s website.</p>
1.05	<p><b>Proposal to undertake a further investment strategy review</b></p> <p>The Committee has typically undertaken a review of the Fund’s investment strategy every three years, aligned with the Actuarial Valuation review (as undertaken earlier this year). However, this three-year cycle is not set in stone and the Committee has the flexibility to undertake an investment strategy review whenever considered appropriate.</p> <p>Mercer have advised the Fund’s officers that there is a good case to undertake a further investment strategy review with a view to:</p> <ul style="list-style-type: none"> <li>• Formalising a plan to fully fund the WPP Sustainable Active Equity allocation within the listed equity portfolio;</li> <li>• Increasing the liquidity of the available assets to help meet cashflow and Private Market capital drawdowns requirements;</li> <li>• Reviewing the risk management framework and collateral position with Insight;</li> <li>• Considering the impact on climate related objectives from the above.</li> </ul> <p>It is not intended that this will materially change the current expected return and risk characteristics of the strategy.</p> <p>In addition, work will commence to consider the options available to the Committee to ensure that the Fund is well prepared to make future changes should it achieve the 110% funding position in the future. The Fund’s Flight Path and Risk Management Framework has had in a place a review point to consider the long-term investment strategy at a level of funding of 110%. During this year, the funding level has been as high as 107%, so getting close to this important review point.</p> <p>It is proposed that further training on the investment strategy and a discussion on any potential changes are discussed with the Committee during the first half of 2024.</p> <p>In due course, should changes to the investment strategy be made following this review, it will be appropriate to reflect these in the ISS.</p>

	<p>Given this is not currently part of the 2023/24 business plan, but it is anticipated that the work start immediately, the Committee will need to approve that this should be added to the current year’s business plan. However it should be noted that the work required for this review is expected to be covered by existing agreed budgets in place (excluding potential implementation work).</p>
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<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	<p>The LGPS Investment regulations require that the Fund “consults with such persons as it considers appropriate as to the proposed contents of its investment strategy”.</p> <p>The Fund has consulted with its employers in respect of the Fund’s RI policies within the ISS and have had no challenge or requests for changes.</p>

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>This report addresses some of the risks identified in the Fund’s Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> <li>• Funding and Investment risks: F2, F3, F4, F6 and F9</li> </ul>

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – ISS

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<ol style="list-style-type: none"> <li>1. Current ISS available in the strategies and policies section of the CPF website - <a href="https://mss.clwydpensionfund.org.uk/home/investments-and-governance/">https://mss.clwydpensionfund.org.uk/home/investments-and-governance/</a></li> <li>2. August 2023 Committee proposed amendments to ISS - <a href="https://committeemeetings.flintshire.gov.uk/documents/s77350/Enc.%201%20for%20Responsible%20Investment%20Policy%20within%20the%20Investment%20Strategy%20Statement.pdf?LLL=0">https://committeemeetings.flintshire.gov.uk/documents/s77350/Enc.%201%20for%20Responsible%20Investment%20Policy%20within%20the%20Investment%20Strategy%20Statement.pdf?LLL=0</a></li> <li>3. February 2023 Committee proposed amendments to ISS – <a href="https://committeemeetings.flintshire.gov.uk/documents/s74528/Enc.%202%20for%20Investment%20Strategy%20Review%20and%20Statement.pdf?LLL=0">https://committeemeetings.flintshire.gov.uk/documents/s74528/Enc.%202%20for%20Investment%20Strategy%20Review%20and%20Statement.pdf?LLL=0</a></li> </ol>

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7.00	GLOSSARY OF TERMS
7.01	<p>A list of commonly used terms are as follows:</p> <p>(a) <b>CPF – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region.</p> <p>(b) <b>Administering authority or scheme manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>Absolute Return</b> – The actual return, as opposed to the return relative to a benchmark.</p> <p>(d) <b>Annualised</b> – Figures expressed as applying to 1 year.</p> <p>(e) <b>Duration</b> – The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.</p> <p>(f) <b>Market Volatility</b> – The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.</p> <p>(g) <b>Money-Weighted Rate of Return</b> – The rate of return on an investment including the amount and timing of cashflows.</p> <p>(h) <b>Relative Return</b> – The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark.</p> <p>(i) <b>Three-Year Return</b> – The total return on the fund over a three year period expressed in percent per annum.</p> <p>(j) <b>Time-Weighted Rate of Return</b> – The rate of return on an investment removing the effect of the amount and timing of cashflows.</p> <p>(k) <b>Yield (Gross Redemption Yield)</b> – The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cash-flows.</p> <p><b>A comprehensive list of investment terms can be found via the following link:</b></p> <p><a href="https://www.schroders.com/en/uk/adviser/tools/glossary/">https://www.schroders.com/en/uk/adviser/tools/glossary/</a></p>